

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
)	
1998 Biennial Regulatory Review –)	CC Docket No. 98-171
Streamlined Contributor Reporting)	
Requirements Associated with)	
Administration of Telecommunications)	
Relay Service, North American Numbering)	
Plan, Local Number Portability, and)	
Universal Service Support Mechanisms)	
)	
Telecommunications Services for)	CC Docket No. 90-571
Individuals with Hearing and Speech)	
Disabilities, and the Americans with)	
Disabilities Act of 1990)	
)	
Administration of the North American)	CC Docket No. 92-237
Numbering Plan and North American)	NSD File No. L-00-72
Numbering Plan Cost Recovery)	
Contribution Factor and Fund Size)	
)	
Number Resource Optimization)	CC Docket No. 99-200
)	
Telephone Number Portability)	CC Docket No. 95-116
)	
Truth-in-Billing and Billing Format)	CC Docket No. 98-170

**REPLY OF WORLDCOM, INC. D/B/A MCI
TO COMMENTS ON THE *STAFF STUDY***

I. INTRODUCTION

WorldCom, Inc. d/b/a MCI (“MCI”) hereby submits its reply to comments on the *Staff Study*.¹ As MCI describes in greater detail below, the record reveals that the *Staff Study* almost

¹ *Staff Study of Alternative Contribution Methodologies* (“*Staff Study*”), attached to Public

certainly understates the instability of the current revenue-based system. Consequently, arguments that the *Staff Study*'s projections support retention of the current system are without merit. In addition, MCI refutes claims by some parties that the *Staff Study*'s "segment impact" and "household impact" projections reveal deficiencies in the connections-based or number-based proposals. Finally, MCI responds to arguments that the *Staff Study* improperly excludes implementation and administrative costs.

II. DISCUSSION

A. The *Staff Study* Underestimates Future Contribution Factors.

The *Staff Study* projects significant growth in the contribution factor under the interim revenue-based system, from the contribution factor's current level of 9 percent to 11.4 percent in 2007, and the record indicates that even that projection of future growth is almost certainly too low. In particular, AT&T and MCI show that (1) the staff has likely underestimated growth in the fund size; and (2) the staff has likely overestimated the contribution base by overestimating long distance revenues, overestimating the percentage of wireless revenues assigned to the interstate jurisdiction, and ignoring the effect of bundling.² Even some supporters of the current revenue-based system note that the *Staff Study*'s projections overestimate the future contribution

Notice, "Commission Seeks Comment on Staff Study Regarding Alternative Contribution Methodologies," 18 FCC Rcd 3006 (2003) ("Staff Study Notice"). As of April 14, 2003, WorldCom is operating under the name of MCI.

² AT&T Reply Comments at 4-6, 8-11; MCI Reply Comments at 36-37. Unless otherwise indicated, all citations to comments and reply comments are to pleadings filed in the above-referenced dockets on February 28, 2003 and April 18, 2003, respectively; all citations to *ex parte* or other submissions are to filings in the above-referenced dockets on the date indicated. Although initially filed on behalf of WorldCom, WorldCom's comments will be referred to throughout as the comments of MCI.

base. For example, Verizon Wireless, Arch, and WebLink all argue that the *Staff Study* overestimates the growth in wireless revenues.³

Other supporters of the current revenue-based approach seek to minimize the impact of the staff's projection of significant growth in the contribution factor. NASUCA, for example, asserts that the projected increase in the contribution factor would be "manageable."⁴ Even assuming the *Staff Study* projection is accurate, by any objective standard, a near 30 percent projected increase in the contribution factor in less than four years provides powerful evidence of the instability of the current system.

B. The "Industry Segment" Analysis in the *Staff Study* is Irrelevant.

Several commenters argue that the *Staff Study*'s "industry segment" analysis shows that Proposal 1 (the connections-based approach) and Proposal 3 (the numbers-based approach) are inconsistent with the Section 254(d) "equitable and nondiscriminatory" requirement. They contend, in particular, that the Commission should not adopt either approach because the "IXC" segment's share of the contributions would be lower than under the current revenue-based system.⁵

As MCI and others show in their comments, the *Staff Study*'s segment analysis is not meaningful, because it is based on flawed assumptions, and it has no relevance to the analysis of whether an approach is consistent with the statute. The segment analysis assumes that each

³ Verizon Wireless Reply Comments at 3 & n.9; Arch Reply Comments at 6-7; WebLink Reply Comments at 8.

⁴ NASUCA Reply Comments at 5.

⁵ See, e.g., NRTA Reply Comments at 3-7.

“segment” provides only one kind of service, *i.e.*, that “IXCs” provide only long distance service, “LECs” provide only local service, and “CMRS” carriers provide only wireless service. But an approach that defines industry “segments” in terms of a single service ignores the fact that firms are increasingly providing more than one type of service.⁶ As the Bell Operating Companies receive authority to originate in-region, interLATA services and MCI offers “all distance” products like The Neighborhood, “the distinction between an ‘IXC’ and a ‘LEC’ is rapidly being rendered meaningless,”⁷ as AT&T notes. Consequently, the *Staff Study*’s service-specific segment analysis sheds no light on the impact of alternate universal service methodologies on particular firms or groups of firms.

Furthermore, there is no merit to claims that Section 254(d) requires the Commission to maintain the relative burdens historically borne by the “segments” defined by the *Staff Study*. Because contributions are ultimately recovered from end users, relative industry segment burdens are irrelevant to an analysis of whether a contribution mechanism is “equitable and nondiscriminatory.” As AT&T explains, “[n]o principled basis exists on which to judge a segment’s burden to be ‘fair’ or ‘equitable,’ except to ensure that contribution is competitively neutral.”⁸

C. The *Staff Study*’s Focus on Average Household Impact is Appropriate.

Several consumer groups criticize the *Staff Study*’s analysis of household burdens under Proposals 1 and 3, contending that the *Staff Study*’s focus on average household burdens ignores

⁶ MCI Reply Comments at 13-15.

⁷ AT&T Reply Comments at 54.

shifts among households that, they allege, would harm low volume users.⁹ But none of those commenters explains why protection of low volume users (as opposed to low income users) should be an important public policy consideration.¹⁰ Indeed, the record demonstrates that any shifts in contributions that might result from adoption of a connections-based methodology do not harm *low income* users. As CoSUS showed in the previous phase of this proceeding, the average residential USF assessment at every income level would be less under a CoSUS-type approach than under the prior historical revenues mechanism.¹¹ Moreover, the CoSUS proposal would completely eliminate USF burdens for Lifeline-eligible low income customers.

D. The *Staff Study* Confirms that the Commission Should Reject the SBC-BellSouth “Split Connections” Proposal.

Of the three proposed mechanisms, the *Staff Study* reveals that the SBC-BellSouth proposal would result in the highest monthly fee per household.¹² The SBC-BellSouth comments do not dispute the *Staff Study*’s estimate. In light of this fact, consumer groups and others urge the Commission to reject the SBC-BellSouth approach.¹³

⁸ *Id.*

⁹ *See, e.g.*, Consumers Union Reply Comments at 4.

¹⁰ *See* CoSUS Reply Comments at 64-65 (filed May 13, 2002).

¹¹ MCI Comments at 24 (citing CoSUS Comments, Attachment 2 (filed April 22, 2002)).

¹² *Staff Study* at 7.

¹³ *See, e.g.*, NASUCA Reply Comments at 10; Consumers Union Reply Comments at 3; CTIA Reply Comments at 13.

E. The *Staff Study*'s Omission of Implementation and Administrative Costs is Proper.

Finally, several commenters argue that the *Staff Study* fails to consider the costs to implement and administer the three alternative proposals and thus underestimates the effects of those proposals.¹⁴ It is important to keep in mind that the “sole purpose” of the *Staff Study* was to develop a more detailed evidentiary record by projecting and comparing the ongoing effects of the newly-modified revenue-based mechanism and the three alternative proposals over a period of time.¹⁵ In order for the projections to be comparable, staff had to ensure that the myriad assumptions underlying the four mechanisms were consistent.¹⁶ Because the study does not include projected implementation and administrative costs for the revenue-based mechanism from 2003 until 2007,¹⁷ it was necessary to exclude such costs from the projections for the three alternative mechanisms over the same time frame. To have done otherwise, for example, by including those costs for one mechanism but not another, would have undermined the usefulness of the study in enabling comparisons of the approaches. Accordingly, the *Staff Study* properly excludes these costs.

A handful of commenters complain that adoption of a connections-based methodology such as that proposed by CoSUS will require them to modify their contribution and collection

¹⁴ See NASUCA Reply Comments at 9-10; Consumers Union Reply Comments at 4-5.

¹⁵ See Staff Study Notice at 2.

¹⁶ See *Staff Study* at 10 (rather than directly projecting revenues, staff translated lines into revenues “to ensure that the projections under the revenue-based system were based on the same assumptions as the three proposals”).

¹⁷ See *id.* at 5-8 (cost mark-up “not applicable” for connections-based plans).

systems, thus “needlessly” incurring additional costs.¹⁸ While it is true that converting to a connections-based approach will require carriers to incur one-time costs to modify their billing systems, these costs are necessary to the development of a sustainable and competitively neutral universal service mechanism. In addition, among the alternative connections-based proposals for moving away from the current revenue-based approach to a sustainable mechanism, the CoSUS approach is the most efficient and imposes the fewest administrative costs.¹⁹

III. CONCLUSION

MCI urges the Commission to act expeditiously to adopt the connections-based approach proposed by CoSUS, preferably by the end of this year so that a viable universal service collection mechanism can be implemented no later than January 2005.

Respectfully submitted,

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¹⁸ See, e.g., T-Mobile Reply Comments at 9-10; XO Reply Comments at 10.

¹⁹ See MCI Comments at 22-23, 39-42.